

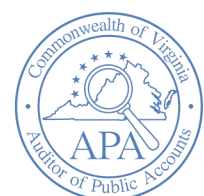


VIRGINIA RACING COMMISSION REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2015

Auditor of Public Accounts
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AUDIT SUMMARY

Our audit of the Virginia Racing Commission for the year ended June 30, 2015, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no matters involving internal control and its operation necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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AGENCY HIGHLIGHTS

Commission Highlights

The Virginia Racing Commission (Commission) controls and prescribes regulations and conditions for all horse racing with pari-mutuel wagering privileges in the Commonwealth. The Code of Virginia requires licensing of all persons engaged in pari-mutuel horse racing in Virginia. The license process includes fingerprinting, criminal background checks, and investigations from other states. In this capacity the Commission licenses horse racetracks and satellite facilities, and ensures that all their employees have valid Commission licenses. The Commission also issues licenses to anyone associated with horse racing, including horse owners, trainers, jockeys, grooms, veterinarians, and blacksmiths. Pari-mutuel horse racing began in the Commonwealth in September 1997 at Colonial Downs, a privately held racetrack in New Kent County. The Code of Virginia permits up to 10 satellite wagering facilities. Currently, there are no satellite wagering facilities as Colonial Downs surrendered their racing license in October 2014.

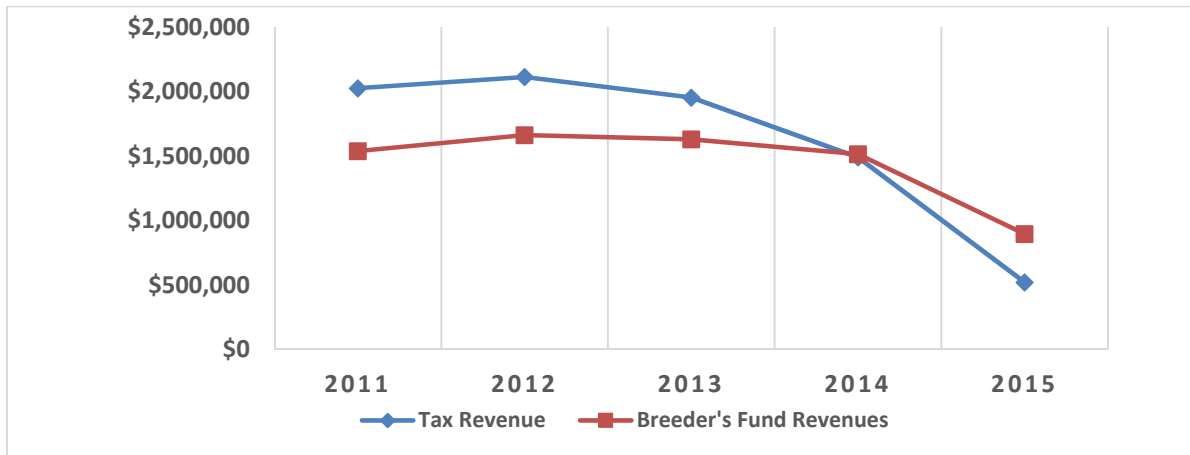
Financial Summary

The results of the fiscal year 2015 financial operations of the Virginia Racing Commission are on page five. The total amount wagered on horse racing in the Commonwealth decreased from fiscal year 2014 to 2015 by \$52 million or 91 percent. This decrease is attributable to the closing of all Colonial Downs operations, including their advance deposit wagering company, EZHorseplay. The lack of thoroughbred racing resulted in a 65 percent decrease in total tax revenue generated from wagering on horse racing. Breeders Fund revenue decreased by 41 percent from 2014.

Change in Wagers and Revenues 2014 and 2015

	Total In-State Wagers	Tax Revenue	Breeders Fund Revenue
FY 2015	\$ 4,930,282	\$ 518,499	\$ 893,701
FY 2014	\$ 57,169,297	\$ 1,488,786	\$1,513,558
Variance	\$ (52,239,015)	\$ (970,286)	\$ (619,857)
% Variance	-91%	-65%	-41%

Breeders Fund and Tax Revenues By Fiscal Year



The Code of Virginia directs the distribution of the funds in the horse racing wagering pools. The percentage distribution varies based on factors such as the type of wagering, whether the race took place within or outside of the Commonwealth, and whether the wagering occurred at the racetrack or at a satellite facility. The Commonwealth retains, as a license tax, a portion of the wagering pools ranging from 0.50 to 2.75 percent. All revenues received by the Commission go to a special fund known as the State Racing Operations Fund.

The Appropriation Act requires the Commission to transfer any funds in excess of the Commission's operating expenses to the General Fund of the Commonwealth. However, the Appropriation Act contains language allowing the Commission to carry forward a portion of its unspent appropriation for the promotion and marketing, sustenance, and growth of the Virginia horse industry as long as it makes its required transfer to the General Fund. Due to the reduction in revenues as a result of Colonial Downs closing, language in the Act was revised to defray this transfer at least for fiscal years 2015 and 2016. At June 30, 2015, the Commission had a cash balance of \$33,999 in its operating fund.

Year-End Operating Cash Balances and General Fund Transfers by Fiscal Year

	2011	2012	2013	2014	2015
Operating Cash Balance	\$ 33,434	\$224,791	\$193,118	\$285,605	\$33,999
Transfers to General Fund	\$577,685	\$511,978	\$749,609	\$184,356	\$ -

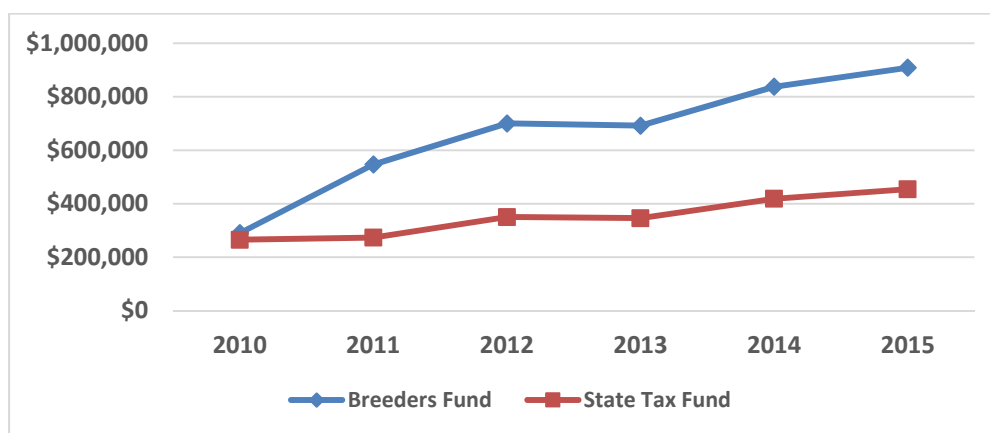
The Code of Virginia also created the Virginia Breeders Fund to support an incentive program to foster the industry of breeding racehorses in Virginia. It receives a one percent distribution of the horse racing wagering conducted in the Commonwealth. The Commission contracted with the Virginia Thoroughbred Association and the Virginia Harness Horse Association to manage the funds. The incentive program provides purses for races, restricted to Virginia bred or sired horses, and

awards to the owners and breeders of Virginia bred horses that win or earn purse money in races designated by the Commission. During fiscal year 2015, the Commission made payments totaling \$1,143,007 from the Breeders Fund consisting of \$928,007 in incentives to owners and breeders, and \$215,000 in management fees to the Virginia Thoroughbred Association and the Virginia Harness Horse Association. At year-end, the cash balance in the Breeder's Fund was \$433,676. This cash balance does not revert to the General Fund.

Advance Deposit Wagering

Section 59.1-369(5) of the Code of Virginia directs the Commission to collect a licensing fee for any provider wishing to offer advance deposit wagering (ADW) to its customers. Currently, these online providers pay \$1,000 annually for this license. ADW includes online or other electronic forms of wagering on horse races simulcast from around the world. Once the provider verifies an applicant's Virginia residency to establish an ADW account, the customer must deposit funds into the account, from which the provider deducts any race wagers. Total wagers from ADW accounts, less any refunds and cancellations, yields gross handle. The Commission ensures that the ADW licensees who operate in Virginia pay a monthly fee of one-half percent based on the gross ADW handle from Virginia residents. For fiscal year 2015 ADW fee deposits into the Commission's operating fund totaled \$418,720. The Commission also collects one percent of the gross ADW handle from Virginia residents from the ADW licensees and deposits these funds into the Virginia Breeders Fund. For fiscal year 2015, total deposits to the Virginia Breeders Fund from ADW licensees were \$837,440. Of particular note, revenues from ADW continue to increase in spite of the projected possible closing of Colonial Downs.

**ADW Revenues
By Fiscal Year**



Future of Horseracing in the Commonwealth

The contract between Colonial Downs and the Virginia Horsemen's Benevolent and Protective Association (Association) expired in February 2014. The Code of Virginia §59.1-369 requires a contract between the licensee and the majority houseman's group to be in place for live

thoroughbred racing. As Colonial Downs and the Association were unable to come to an agreement, there have been no live thoroughbred races in the Commonwealth since the 2013 racing season.

The Commission is optimistic that both thoroughbred and harness racing will return to Virginia during fiscal year 2016. Negotiations are in process with racing facilities in Loudon County and Nelson County for establishment of permanent locations for thoroughbred and harness racing. Should these negotiations succeed, the Commission foresees a steady increase in revenues in the future. Presently, there are plans for three pari-mutuel events in Fall 2015 including two thoroughbred race days at Great Meadow in The Plains and four days of harness racing at Oak Ridge Estate in Nelson County. In addition, the General Assembly enacted new language in the Code of Virginia to allow an increase in the percentage of advance deposit wagering tax revenues to the Commission's operating fund. The increase is effective July 1, 2015.

The Commission has approved three Virginia-bred races scheduled at Laurel Park, Maryland, allowing Virginia-bred horses to maintain their graded status which is essential for future racing within the Commonwealth. Colonial Downs has a pending application for a one-day license for November 30, 2015.

VIRGINIA RACING COMMISSION
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES
IN CASH BALANCES - BUDGET AND ACTUAL
For the Twelve Months Ending June 30, 2015

	Budget	Actual			Total Variance
	Total Budget	Breeders Fund	Operations Fund	Total	Positive/ (Negative)
Revenues:					
Taxes and pari-mutuel wagering	\$ 1,627,850	\$ 893,701	\$ 518,499	\$ 1,412,200	\$ 215,650
Application fees	45,500	-	62,440	62,440	(16,940)
Fines and assessments	3,500	-	7,350	7,350	(3,850)
Interest	-	-	-	-	-
Total revenues	<u>1,676,850</u>	<u>893,701</u>	<u>588,289</u>	<u>1,481,990</u>	<u>194,860</u>
Expenses:					
Personal services	683,559	-	534,286	534,286	149,273
Contractual services	578,944	-	197,559	197,559	381,385
Supplies and materials	(184,553)	-	6,048	6,048	(190,601)
Incentive and marketing payments	1,928,856	1,143,007	22,879	1,165,886	762,970
Continuous charges	120,083	-	71,774	71,774	48,309
Total expenses:	<u>3,126,889</u>	<u>1,143,007</u>	<u>832,546</u>	<u>1,975,553</u>	<u>1,151,336</u>
Transfers out:					
General fund	-	-	-	-	-
Literary fund	3,500	-	7,350	7,350	(3,850)
Total transfers	<u>3,500</u>	<u>-</u>	<u>7,350</u>	<u>7,350</u>	<u>(3,850)</u>
Revenues over (under) expenses and transfers out	<u>(1,453,539)</u>	<u>(249,306)</u>	<u>(251,607)</u>	<u>(500,913)</u>	<u>(952,626)</u>
Cash balance at June 30, 2014		<u>\$ 682,982</u>	<u>\$ 285,606</u>	<u>\$ 968,588</u>	
Cash balance at June 30, 2015		<u>\$ 433,676</u>	<u>\$ 33,999</u>	<u>\$ 467,675</u>	



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 31, 2015

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John C. Watkins
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Virginia Racing Commission** for the year ended June 30, 2015. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System, review the adequacy of the Commission's internal controls, and test compliance with applicable laws, regulations, and contracts.

Audit Scope and Methodology

The Commission's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

- Contractual services expenses
- Payroll expenses
- Small purchase charge card
- Financial assistance and incentives payments
- Appropriations
- Cash receipting and collections of accounts receivable

We performed audit tests to determine whether the Commission's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, and contracts. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Commission's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that the Commission properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Commission records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Exit Conference and Report Distribution

We discussed this report with management on September 22, 2015.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

KS/alh

COMMISSION OFFICIALS

Virginia Racing Commission

J. Sargeant Reynolds, Jr.
Chairman

D.G. Van Clief, Jr.
Vice Chairman

Carol G. Dawson
Clinton Miller
Charles Steger, PhD

Bernard J. Hettel
Executive Secretary

David Lermond, Jr.
Deputy Executive Secretary